

February 20, 2024

The Honorable Caryn Tyson, Chairperson
Senate Committee on Assessment and Taxation
300 SW 10th Avenue, Room 548-S
Topeka, Kansas 66612

Dear Senator Tyson:

SUBJECT: Fiscal Note for SB 494 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 494 is respectfully submitted to your committee.

SB 494 would establish the Adoption Savings Account Act. The bill would allow individuals to open adoption savings accounts at a financial institution on and after July 1, 2025, to save for eligible expenses for the adoption of a child in this state. The account holder would be required to designate a beneficiary on the account by April 15 of the year following the tax year in which the account was established. Contributions to an adoption savings account would be limited in each tax year to \$3,000 for individuals and \$6,000 for a married couple filing a joint return. The maximum amount of contributions in all tax years would be limited to \$24,000 for individuals and \$48,000 for a married couple filing a joint return. The maximum amount in an adoption savings account could not exceed \$50,000. If these limits are exceeded, then the interest or other income earned on the investments would be subject to state income taxes. The State Treasurer would have the authority to market the adoption savings account program to account holders and financial institutions throughout the state and may report on the marketing initiatives in its annual report.

Calculations for Kansas income taxes are based on Kansas adjusted gross income, which is calculated by adding or subtracting certain types of income from the amount of federal adjusted gross income. The bill would allow taxpayers to subtract the amount of contributions to an adoption savings account from income for Kansas income tax purposes beginning in tax year 2025. The bill would limit the subtraction modification to \$3,000 for individual taxpayers and \$6,000 for a married couple filing a joint return, or the amount received as income earned from assets in an adoption savings account. The bill would require that if the taxpayer does not use the adoption

account for the authorized uses or does not keep the account open for at least one year, then the taxpayer would be required to add back the amounts previously claimed for Kansas income tax purposes plus certain penalties. Penalties would not apply to a designated beneficiary that has died.

The bill would require the Department of Revenue to create forms for the account holder to use in filing annual state tax returns. Financial institutions would not be required to designate an account as an adoption savings account, track the use of monies, or report any information to the Department of Revenue. Financial institutions would not be responsible or liable for determining eligibility of an account holder, ensuring monies are used for eligible expenses, or for reporting or remitting taxes or penalties. The bill includes definitions of account, account holder, designated beneficiary, eligible expenses, and financial institution. The Department of Revenue would have the authority to write rules and regulations to implement the bill prior to July 1, 2025.

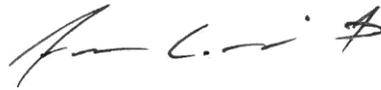
Estimated State Fiscal Effect			
	FY 2024	FY 2025	FY 2026
Expenditures			
State General Fund	--	\$161,401	\$65,414
Fee Fund(s)	--	--	--
Federal Fund	--	--	--
Total Expenditures	--	\$161,401	\$65,414
Revenues			
State General Fund	--	--	(\$200,000)
Fee Fund(s)	--	--	--
Federal Fund	--	--	--
Total Revenues	--	--	(\$200,000)
FTE Positions	--	1.00	1.00

The Department of Revenue estimates that SB 494 would decrease state revenues by \$200,000 in FY 2026 and by \$300,000 in FY 2027. To formulate these estimates, the Department of Revenue reviewed data on adoptions from the National Council for Adoption and the Department for Children and Families. The average number of adoptions per year in Kansas from 2019 to 2022 was 1,000. Data suggests that approximately 28.0 percent of adoptions would be made by single parents. If each single and married individual planning to adopt established accounts in advance for themselves, the total contributions in the first year would be approximately \$5.2 million. At an effective tax rate of 3.1 percent, this would decrease income tax receipts by approximately \$200,000 in tax year 2025.

The Department indicates that the bill would require \$161,401 from the State General Fund in FY 2025 to implement the bill and to modify the automated tax system. The bill would require the Department to hire 1.00 new FTE position to answer questions from taxpayers and to review,

process, and manage the new adoption savings account subtraction modification. The Department estimates that ongoing expenses for salaries and wages for the 1.00 new FTE position would total \$65,414 from the State General Fund in FY 2026. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. In addition, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, additional expenditures for outside contract programmer services beyond the Department's current budget may be required. Any fiscal effect associated with SB 494 is not reflected in *The FY 2025 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam C. Proffitt", with a stylized flourish at the end.

Adam C. Proffitt
Director of the Budget

cc: Lynn Robinson, Department of Revenue
John Hedges, Office of the State Treasurer